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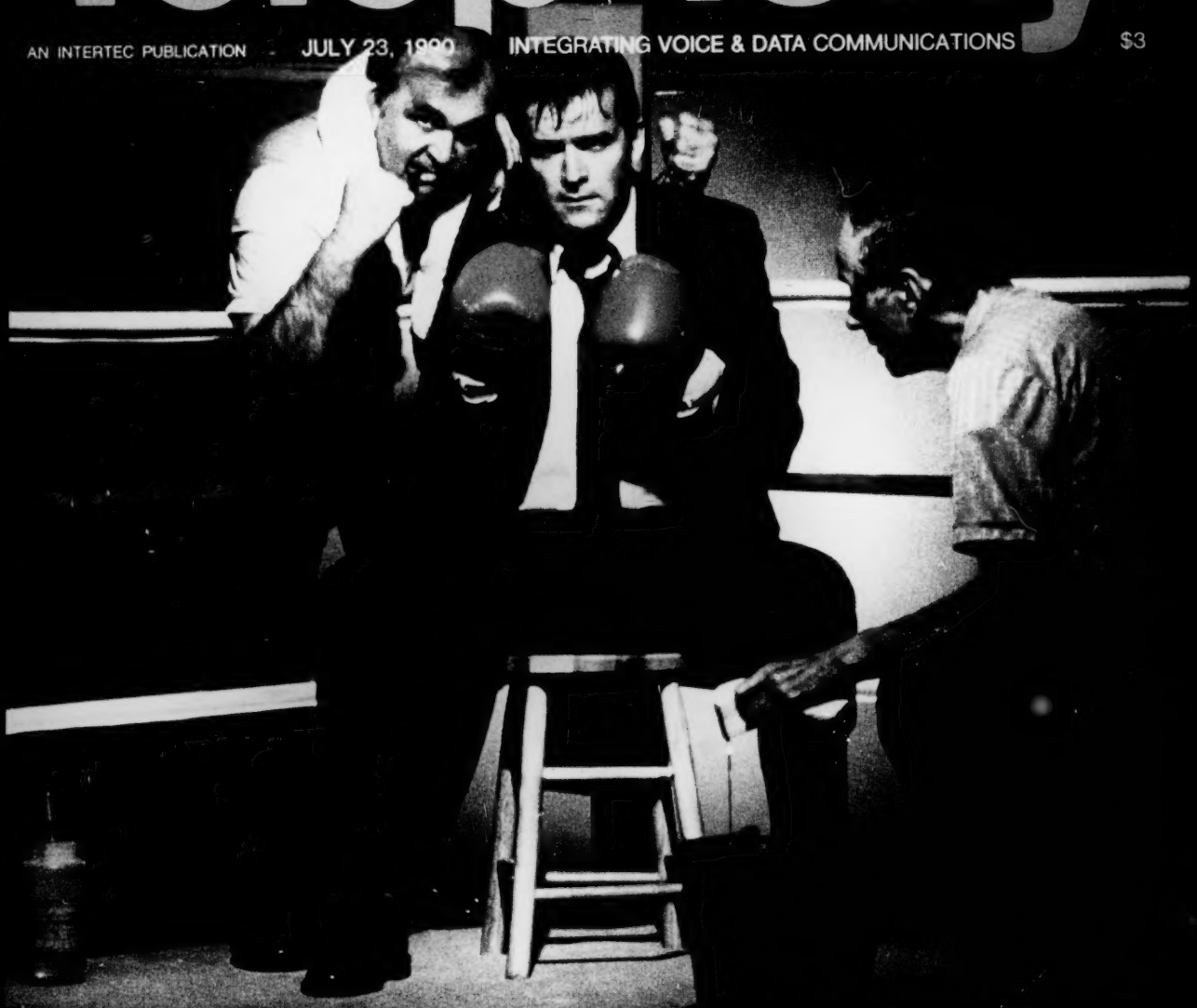

A TOUGH GAME GETS TOUGHER

Intense competition will make the global CO switch market the fight to watch in the '90s

WILL RHC MERGERS BE NEXT?

GTE-Contel deal may start a mergers and acquisitions trend

SIEMENS TO SUPPORT BELL ATLANTIC'S MAN

Vendor to work with QPSX in Temple University trial

MONDAY, JULY 23, 1990 Volume 219, No. 4

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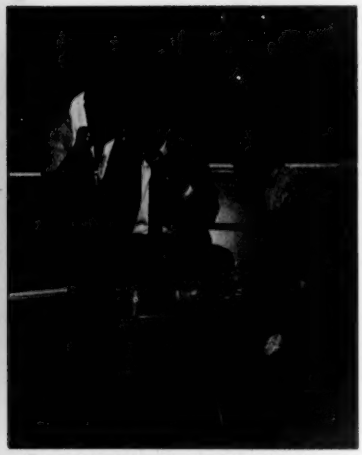

Competition is heating up in the global central office switch ring. Market challengers have the chance to win a big purse, but they could end up with nothing to show but bruises, black eyes and empty pockets. Cover photo by Comstock

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Competition comes to South Korea

MICHAEL GALBRAITH
Special Correspondent

South Korea's Ministry of Communications soon will announce a number of measures that will herald a new era in that country's telecommunications service industry. The changes will make South Korea the fourth country in the world to introduce competition in basic services.

Competition will be introduced for international business as well as for mobile communications. The full liberalization of the domestic and international value-added network (VAN) market also will be accelerated. The introduction of competition in the long-distance business has apparently been put off until the mid-1990s.

Competition will initially follow the duopoly pattern currently practiced in the United Kingdom.

"The size of the Korean telecom services market is rather limited," says Dr. Oh, Sung Baik, senior research fellow at the Korea Information Society Development Institute. "We need a step-by-step approach."

Data Communications Corp., called DACOM, is expected to be designated initially as the new competitor in international services, and possibly later in the long-distance business. In addition, by the middle of 1992 existing telecom legislation is scheduled to be overhauled and a new system for classifying carriers introduced. The system will be modeled after the Japanese system, which divides carriers into General Type 1 carriers that own their own circuits, Special Type 1 carriers and Type 2 carriers.

The MOC's plan for competition in the long-distance and international fields is being fought tooth and nail by the giant Korea Telecommunications Authority, the current monopoly provider of these services. KTA's revenues totaled almost $4.4 billion at the end of 1989. KTA was legally privatized Jan. 1.

The government was expected to list the company on the stock market beginning July 1 and sell off 25% of its shares in the first two issues. Unfortunately, the sharp decline of the South Korean market has led to the postponement of the first issue, probably until next year. Although they have offices in the same building, relations between MOC and KTA have been deteriorating.

DACOM is happy about the plan, but disappointed at not being able to get an immediate go-ahead to compete in the long-distance business. South Korea's second carrier had a turnover of $165 million in its last fiscal year but has been troubled since it was made sole provider of data communications services. It now has an excellent opportunity to find itself a more secure and profitable place in the basic services field.

The government's decision follows a long period of intense debate involving the government, academia and private industry that is reminiscent of what has happened in the U.S., the U.K., Japan and other countries. Having created the world's 10th largest service market, the government is trying to move from a quantity-oriented policy to a quality-oriented policy, and it sees deregulation as a key catalyst.

The future role of KTA has been a focal point of this debate, and the subject of its possible break-up also has been raised. The government has proceeded cautiously and sounded out every interest group because it is aware of the crucial significance of any changes. There were even several public hearings in which leading experts and leading representatives of the interested parties, including MOC, KTA and DACOM, publicly discussed and argued the issues. Over 300 people attended the last of these meetings.

MOC had promised to come up with its final plan by the end of June, but apparently has had difficulty winning the agreement of some of those people, especially within KTA's management and labor union, who are firmly opposed to parts of the plan. In South Korea, as in Japan, it is customary to negotiate a consensus.

The matters that have stirred the most controversy are the questions of competition in the long-distance business and the role of DACOM. Long-distance competition in particular is fiercely opposed by KTA. The most recent press reports indicate that MOC may have reached a compromise by permitting competition in international services to commence this year while putting off competition in the long-distance field until the mid-1990s.

The Seeds of Change

The current debate started in March 1989 when KISDI, MOC's telecom policy think-tank, appointed an ad hoc advisory committee to study the future of the information and telecommunications industries. The committee was chaired by former Seoul National University President Dr. Shin, Tae Hwan and consisted of 96 experts from various fields including universities, research institutes, the government and private industry. After six months of research, the committee presented its report last November.

The report recommended competition in every field, but said the government should take a step-by-step approach until the mid-1990s. It also called for a preparatory period lasting up to the mid-1990s before competition would be introduced, although the immediate introduction of competition in the mobile communications and international telecom fields was seen as advisable.

The report also said that enhanced services, the sector at the source of trade friction with the U.S. government, should be opened to competition as early as possible. Finally, the report suggested that although there should be no restraints on KTA's business activities, the administration must practice "fair competition."

MOC says that it accepted the report's recommendations.

"Early in 1990 the government decided to allow competition in basic transmission services and has since then been working out a detailed schedule in conjunction

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KOREAN TELECOM STATISTICS								
Calendar year	1982	1983	1984	1985	1986	1987	1988	1989
Telephone switching capacity	4,492,660	5,337,450	6,290,172	7,538,598	8,905,462	10,221,746	11,239,443	13,354,150
Telephone subscribers	4,079,590	4,809,897	5,594,973	6,517,395	7,520,889	8,625,496	10,306,028	11,791,674
Telephone subscribers per 100 population	10.4	12.0	13.8	15.8	18.1	20.5	24.6	27.8
Public pay phones	70, 864	88,227	101,478	117,761	138,491	160,165	180,165	212,165
Public pay phones per 1000 population	1.8	2.2	2.5	2.9	3.3	3.8	4.3	5.0
Total telephone sets	5,229,221	6,035,763	6,984,577	7,917,227	9,288,464	12,227,234	12,414,978	14,195,000
Telephone sets per 100 population	13.2	14.9	17.3	19.2	22.3	29.1	29.6	33.0
Long-distance transmission circuits	126,652	158,208	183,830	192,642	201,215	222,181	285,632	356,520
Domestic leased circuits	49,312	56,701	65,722	75,286	87,893	103,008	126,496	169,587
International transmission capacity	1800	1872	2016	2188	3195	3622	4114	5386
International telephone circuits	750	948	1091	1294	1551	1863	2412	3960
Mobile subscribers	—	—	2700	4600	7000	10,200	17,500	39,700

South Korea *continued*

with industry and users," explains Mr. Cheon, Jo-Un, director of the planning division of MOC's Telecommunications Policy Bureau. "The government wants to improve customer benefits," he adds.

The status and role of DACOM in the new competitive environment has caused a lot of controversy. DACOM was established as a private corporation at the same time as KTA in April 1982. It is actually a consortium that is 34% owned by KTA but includes many of South Korea's major enterprises. Although it has been given a monopoly in data communications and enhanced services and the right to resell lines leased from KTA, DACOM has never really been profitable. This initially was due to the undeveloped nature of the market and more recently because it is being forced to relinquish its monopoly and face competition.

"We have a 10% outage nearly everyday on the lines we lease from DACOM," complains Jerry Thorson, executive vice president of Systems Technology Management, the 50-50 joint venture between Lucky Goldstar and Electronic Data Systems Corp. of the U.S. The company is one of DACOM's biggest customers and is pushing for greater market access, which would come at DACOM's expense.

DACOM lost its monopoly in enhanced services last July and is set to lose its remaining multiplexer monopoly due to the new policy changes.

"DACOM has become a big burden for the MOC," says one source requesting anonymity. Giving DACOM entry to KTA's long-distance business is clearly one way to compensate DACOM for the damage that VAN market liberalization will bring, and doing so hopefully would cure MOC's headache. Some experts—including many foreign observers—still see MOC as acting mainly to protect the interests of KTA and DACOM.

MOC reportedly prepared two alternative plans. One plan designates DACOM as the second carrier, while the other calls for a second carrier that is a consortium of private industry. The government, however, is reportedly reluctant to allow South Korea's major business conglomerates, the *chaebol*, to get too involved in the telecom service industry because of the almost unhealthy degree to which they already exercise dominant control over the South Korean economy.

KTA maintains a tough stance on the competition issue.

"We [in KTA] think that competition and privatization are inevitable but consider that it is too early for Korea. Only three countries in the world have introduced competition in basic services. Even major countries like West Germany and France don't have competition yet," says one KTA source. "Our attitude is that we should maintain our monopoly in basic services until 2000." The South Korean market for services is still relatively small—slightly over $4 billion compared with the $40-billion Japanese market. He says DACOM lacks the funds to build a long-distance network.

At the final public hearing on June 18, complaints surfaced about the possible designation of DACOM as the second carrier.

"A major worry is that, if DACOM becomes the second carrier, nothing will improve," says one industry expert.

Not surprisingly, officials at DACOM have a different view.

"If we get a license from the

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government, we can go public. We can raise funds very easily," says D.K. Kim, DACOM's managing director. Suggesting that DACOM's entrance into the long-distance field would have little impact on KTA revenues, Kim explains that it would take a long time to construct a long-distance network, and that DACOM would be targeting only a small market share—10% at the most. "We wish to offer new end-to-end, fully digital services to major business customers," he says.

One of DACOM's biggest problems from its inauguration has been that it never has had its own network. It always has had to lease facilities from KTA. Since May, DACOM has been offering its IBS high-speed international data communications service using Intelsat and an earth station on the roof of its main office.

As the government revises its public policy on telecommunications, it has had to face up to a lot of issues familiar to the U.S., the U.K. and Europe. KTA may be a monopoly suffering from too much bureaucracy and inefficiency, but it has been playing a pivotal role in meeting the government's obligation to provide public services nationwide and also in the plan to develop South Korea's information society.

KTA provides most of the funds for South Korea's grand research and development projects. An example is the TDX switching project being carried out by the Electronics & Telecommunications Research Institute. It also has launched a project to supply 10 million computers to the South Korean public by the year 2000 to help create the information society.

Nevertheless, the threat of competition has already awakened KTA to self-examination and produced some positive results. The tariff structure is being reformed and long-distance rates are being reduced. Since Jan. 1 the company simplified the corporate structure and has introduced accounting by service sector. At the same time KTA also is setting up subsidiaries to pursue new businesses such as CATV.

Although many see South Korea as another Japan, some experts point out that it is still a young, developing country. "Korea has problems with efficiency and social obligation, especially the need to lay basic facilities nationwide," explains KISDI's Dr. Oh. "The introduction of competition and the privatization of KTA is to improve efficiency, but there will be a trade-off between efficiency and obligation. There are still gaps between regions and income groups. Telecommunications should play a role in reducing these gaps. Competition cannot solve these kinds of social problems. That's why we need a balanced step-by-step approach," he warns.

Dr. Oh has modest aspirations for South Korea's future role on the world telecom stage.

"I hope that we can help undeveloped countries solve their serious telecommunications infrastructure problems. I believe that Korea can play a gap-filling role between North and South," he says. T

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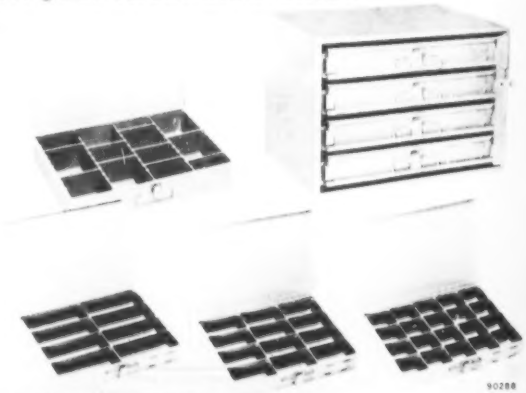

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